



# Strategies & Tax Update

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Fedder, Gurau & Staniewski  
*chartered accountants*

## In this Issue:

Deduct your medical expenses  
in your corporation.

Corporate and personal tax  
instalments can be reduced.

Yearend planning for salaries and  
dividends are due December 31.

## Health and Welfare Plan

Consider the scenario where you do not have a private medical benefit plan. You accumulate all your medical receipts for the year and hand them to your accountant with your personal income tax information. It brings a sigh of relief to have unloaded this mass of receipts, hoping that it will provide considerable tax savings. Your accountant utters some words of frustration having received the receipts. Why? The time-consuming data entry of receipts in most cases saves only a small token of tax money.

Take the example of a family having a total of \$3,000 of medical receipts in a given year. In our example, we will assume that both spouses have reasonable income levels. CRA requires a minimum of \$1,884 of medical expenses for 2006 before being able to claim a tax deduction. This threshold is based on the taxpayer's net income for the year. The actual tax credit allowed is the difference between the \$3,000 and \$1,884, being \$1,116. The tax credit at 20% allows a tax savings of \$223. Is there a better way?

If the company could pay for the medical receipts, the tax savings

would be \$1,389. The additional savings would be \$1,166 per year on \$3,000 of medical expenses. For every additional \$1,000 of medical expenses the additional savings would be \$260 per year.

The Health and Welfare Plan (HAWP) provides such a benefit. The main prerequisite is that the sponsoring company must be incorporated, including Professional Corporations. With this plan your medical costs are now tax-deductible by the company and you have the flexibility of providing additional coverage for employees. If you allow your other employees to be part of the plan, they will receive a tax-free benefit. The benefit amounts offered to employees can be provided with stipulations as long as they are given a minimum of \$1,000 per year of benefits. The medical benefits would include the professionals and their families.

There are 2 types of plans to choose from. The self-administered plan involves opening a separate bank account. This account is used to deposit funds in to cover the medical expenses, and cheques are written to pay the individual submitting the receipts. The cost of this plan is a one-time fee of approximately

\$1,500. The other plan is a cost-plus plan. This plan requires cheques to be written to a company to handle the administration of the plan. The cost of this plan is 10% plus gst of the actual medical receipts submitted each time.

Most of us have heard the importance of critical illness and long-term care insurance. The greatest selling feature tends to be the return of premium benefit. This additional rider makes the policy sound like there is no cost to the policy. Both policies can be purchased as individual or group plans. These premiums can also be paid by a HAWP. In order for the company to pay and deduct the premiums they must be split between the pure insurance of the policy and the amount that is paid for the return of premium benefit. The premiums for the return of premium must be reimbursed back to the company. If the insurance benefit is paid out to the employee, it will be tax-free. The above insurance plans make the HAWP very attractive. There is an increase in the tax savings with these additional insurance premiums. If you would like additional information on the set up of a HAWP please contact our office.

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## Your Timetable For Taxes

With the new world of Professional Corporations the timing of tax payments has changed for many. Although new for the proud owners of Professional Corporations these comments apply to all taxpayers who operate a company. For those who are self-employed the obligation to remit quarterly instalments exists. You should have recently received an installment reminder from the friendly taxman advising of the installment expected, which is based on the prior years taxes payable.

If you operate a Corporation you should already have a Business Number (BN). If you do not have a BN you should apply for it as this number, with different suffixes is the vehicle for making your tax payments, be they source deductions, GST or Corporate tax instalments. If you do not already have the needed number we can assist you in registering with CRA.

If wages are being paid out to yourself, your spouse or your employees then you are obliged to withhold Canada Pension, Employment Insurance for unrelated employees and Income Taxes. Generally these deductions, along with the employer's share are due before the 15th of the month following the month that the wages were paid. Therefore the source deductions arising from August's wages are due before September 15th. If your source deductions per month exceed the legislated thresholds, you may be required to remit more frequently. It should also be noted that there are penalties and interest for late remitting. Source deductions can be remitted using on-line banking. We

can assist you in setting this up. In order to make these remittances the Corporation must have established a source deduction account that is the issued business number with the suffix RP0001. We can assist in establishing the source deductions account if you do not already have one.

For those Companies that have income that is subject to GST, a GST account must be requested. Again this is the business number with the suffix RT0001. If you have taxable sales in excess of \$30,000 you must register, collect and remit the GST. We can assist in requesting a GST number. Once you are registered you must collect and remit GST regardless of whether your sales are greater than or less than \$30,000. Depending on your filing frequency you must ensure that the GST you are collecting is put aside so that it is available when the due date arrives. Often the obligation will be for you to remit quarterly instalments and file annually. If the quarterly instalments are not remitted, interest and penalties will be applied when the return for the year is assessed. The instalments are due within a month of the quarter end and the annual return is due within three months from the fiscal period end. Self-employed persons have a filing deadline for their annual return on June 15th.

If income is being retained in the Corporation, as is the case with many Professional Corporations, the company will have corporate income tax to pay. In order to avoid arrears interest, the balance of any tax owing for a fiscal period is due by the end of the third month after the fiscal period ends even though the tax return for the year is not due until the end of the sixth month. If it is your first year of operating, or if no tax was payable in the prior year, instalments during the

year are not required. For example, if you commenced operating a P.C. this year and the first year end was July 31, 2008, then you could defer paying any taxes until the end of October 2008 when the taxes at 18.6% of net income would be due. If you had taxes payable in the prior year in excess of \$2,000 then you would be expected to pay monthly instalments to the Federal and the Province based on the prior year's taxes payable. If you choose not to remit these instalments you will be assessed installment interest at the time the tax return for the year is filed. These instalments can also be remitted via on-line banking.

The taxes we pay in Canada are high enough as it is. So as to avoid paying any more than you have to, the installment dates need to be respected. As that famous commercial says, "Pay me now or pay me later." If you choose to pay later then you will pay more.

### Important Dates

*Personal Tax Instalments  
Due September 15, 2007  
Due December 15, 2007*

*Corporate Tax  
Balance due 3 months after fiscal  
yearend.*

*Dividends  
Must pay before December 31.*

### Referrals

*We would like to take the opportunity to thank our clients who value our service and have recommended our firm to others. We thank you for contributing to the success of our firm.*

### Partners

**Victor Staniewski, CA  
Irving Gurau, CA**